



in a changing market

TARION WARRANTY CORPORATION
ANNUAL REPORT 2009

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OUR MANDATE

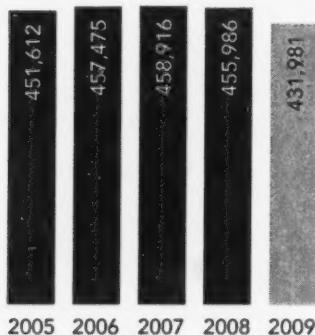
Tarion is a private corporation that was created in 1976 to provide for the regulation of new home builders and the administration of a warranty plan that protects home buyers in Ontario from certain risks associated with the purchase of a new home.

Our overall mandate is to administer the *Ontario New Home Warranties Plan Act* and includes:

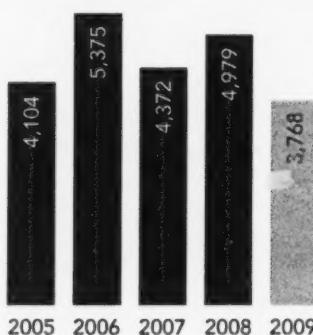
- Protecting new home buyers from builder failures or defaults (such as, substandard construction, faulty workmanship and materials, incomplete construction and loss of deposits), through the development, promotion and administration of statutory warranties.
- Promoting better communication between builders and buyers of new homes.
- Providing new home buyers with a forum for complaints about builders and assisting in their expeditious and equitable resolution.
- Establishing and administering a guarantee fund that provides for the payment of compensation under the Plan.
- Informing and educating new home builders, and through research programs, promoting progressive improvement in the quality of housing in Ontario.

KEY OPERATIONAL HIGHLIGHTS

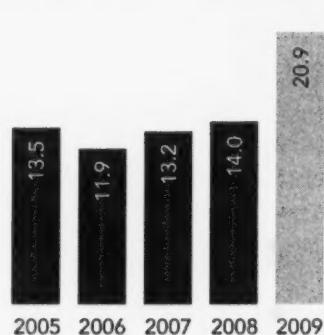
**NEW HOMES
UNDER WARRANTY**



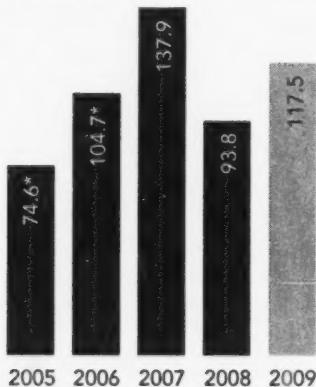
**HOMES WITH A
CONCILIATION INSPECTION**



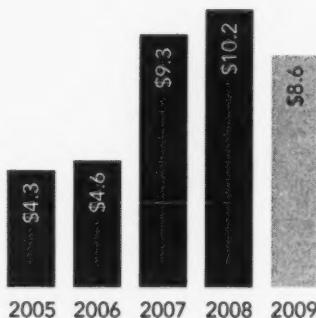
**TOTAL CLAIMS PAID
(\$ millions)**



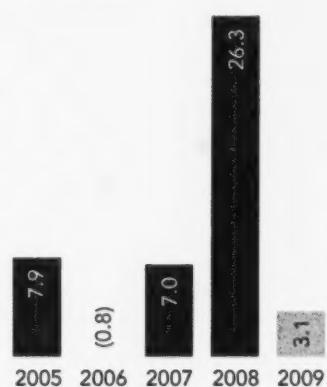
**TOTAL EQUITY
(\$ millions)**



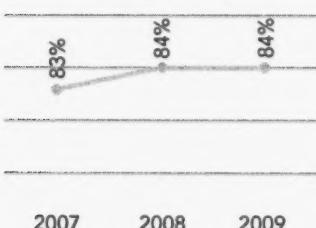
**RECOVERIES FROM BUILDERS
(\$ millions)**



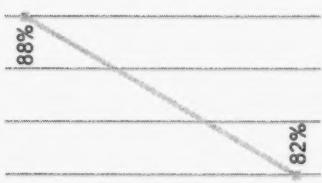
**NET CLAIMS INCURRED
(\$ millions)**



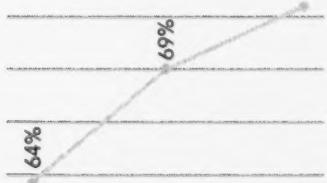
**HOMEOWNER SERVICE
ORIENTATION INDEX[†]**



**BUILDER SERVICE
ORIENTATION INDEX[†]**



**EMPLOYEE
ENGAGEMENT[‡]**



* Does not reflect fair value adjustments for the investment portfolio which were added beginning in 2007 when the C.I.C.A financial instruments standards were adopted.

† The Homeowner Service Orientation Index reflects the average of opinion scores for accessibility, ability to listen to and understand needs and how easy Tarion is to do business with. The Builder Service Orientation Index reflects the average of opinion scores for accessibility and ability to listen to builder needs and concerns. Please see pages 13 to 15 for survey methodologies.

‡ Based on results of a bi-annual employee opinion survey conducted by The Hay Group.

STRATEGIC INITIATIVES

In 2009, Tarion initiated a new three year plan that takes the realities of the current economy into account while aiming to become a more flexible, creative and efficient organization. Entitled *Meeting the Challenges – 2009-2011* this new plan will help ensure that new home buyers are protected and educated, that Ontario's new home builders are given support to satisfy their customer commitments, and that Tarion is able to fulfill each area of its mandate while maintaining a stable financial position.

The initiatives below were undertaken as part of the first year of our new strategic plan.

Expense Reduction and Revenue Enhancement

- ✓ Expenses were substantially reduced through a hiring and salary freeze, decreased advertising spending, restrictions on employee travel and cancellation of the annual builder awards gala.
- ✓ Builders were made accountable for claims between \$150,000 and \$300,000 (previously covered by Tarion).
- ✓ Fees were increased in a number of areas to better cover the costs of regulating the industry. Most fees had not changed in 10 or more years.

Improve Stakeholder Messaging

- ✓ New home buyer education seminars were moved online to expand their reach.
- ✓ A homeowner welcome package that includes a 10-Minute Warranty Guide DVD was introduced.
- ✓ Fifteen issue-related town hall meetings were held with affected homeowner groups.

Be More Customer-Centric

- ✓ Began accepting warranty forms that were one day late which reduced the number of rejected forms by 10 per cent.
- ✓ Reduced the average length of time between the date of a conciliation inspection and the date of a follow up report to four days.
- ✓ Began expediting complaints if they were related to a potential health and safety issue.
- ✓ The New Home Buyer Ombudsperson Office completed its first full year reviewing 267 complaints and inquiries from homeowners who felt they had been treated unfairly or improperly.

"Make it Work"

- ✓ Started intervening early in the warranty process to help homeowners understand what is covered and ensure builders were honoring their warranty obligations. This resulted in a 21 per cent reduction in conciliation inspections.
- ✓ Launched MyHome, a fast and easy way for homeowners to manage their warranty online. Over 5,000 new home buyers signed up for the service in 2009.
- ✓ To encourage greater co-operation and issue resolution, we introduced a fee of \$1,000 for builders if a conciliation inspection results in a warranted item and a fee of \$250 for homeowners if no warranted item is found.

STRATEGIC INITIATIVES

Increase Transparency

- ✓ The first Tarion Annual Public Meeting was held in April 2009 to provide an update on our activities and financial performance and give stakeholders an opportunity to speak directly to the Tarion Board of Directors and senior management.
- ✓ Established two new stakeholder committees:
 - A *Non-Builder Industry Expert Group* to provide a consumer point of view on policy matters and issues.
 - A *Condominium Committee* comprised of Board Members to help improve and streamline the condominium warranty process.
- ✓ Expanded our homeowner satisfaction survey to include purchasers in all phases of the warranty. Over 47,000 surveys were mailed to consumers who took possession of a new home in the last seven years.

Prevent Illegal Building

- ✓ Worked with the Ministry of Municipal Affairs and Housing and the Ontario Home Builders' Association to mandate the sharing of building permit information provided to municipalities beginning in 2011.

MESSAGE FROM THE CHAIR OF THE BOARD

I am happy to report that while 2009 presented many challenges for management, staff and the Board of Directors of Tarion Warranty Corporation, our focus never wavered in ensuring new home purchasers received the warranty protection they are entitled to.

The health of the economy cast a shadow over all our activities as we kept a close watch on the number of new homes enrolled with Tarion. Also of concern was the possibility of builders experiencing financial difficulties or finding themselves unable or unwilling to meet their warranty obligations to new home buyers. These pressures had the potential to increase the number of claims Tarion receives and affect the health and viability of our reserve funds. Fortunately this was not the case.

I would like to acknowledge the hard work of Tarion's employees throughout this difficult year. Their resourcefulness and flexibility played a major role in helping move the corporation in a new direction. I would also like to thank the members of the Tarion Board of Directors and Corporate Leadership Team who also rose to the challenge and made some difficult but necessary decisions.

2009 saw the departure of two Board members: Julie Di Lorenzo, President of Diamante Development Corporation and Frank Giannone, President of Fram Building Group who served as a non-voting Associate Member. I would like to thank both of them for their dedication and service and welcome new Board Member Bob Aaron of Aaron & Aaron Barristers & Solicitors and Mark Basciano, President of Mountainview Homes, as well as James Bazely, President of Gregor Homes who will serve as a non-voting Associate Member for the coming year.

One of the things I am personally very pleased with is our response to the Ontario Government's review of Tarion, in conjunction with their study of the province's Delegated Administrative Authorities. The Todres Report recommended changes to Tarion's governance model including the establishment of a Regulatory Affairs Committee to review and recommend regulation changes under the *Ontario New Home Warranties Plan Act*. Beginning in 2010, this Committee will hear recommendations from stakeholders, including the public, on all regulatory changes involving Tarion processes. Information about making submissions regarding proposed new policies can be found on the Tarion website.

Other changes to our governance practices include broadening the selection process for the appointment of Tarion Board members. The new selection process is based on the application of a skills matrix designed to identify areas of expertise beneficial to the operation of the corporation. We also established a rigorous annual self assessment of our practices and performance, which is completed under the direction of an independent governance professional. This allows the Directors to regularly determine areas for improvement in their governance practices. The Board has also instituted a requirement for all Directors to attend an accredited director education program to gain an enhanced understanding of the practical knowledge and skills required for discharging their duties at Tarion.

I am confident the continuous improvements we have undertaken are making Tarion more responsive to all our stakeholders. The last year has demonstrated we have the flexibility to meet the challenges of a volatile economy while maintaining the high level of service new home purchasers expect of us.



A handwritten signature in black ink, appearing to read "Harry Herskowitz".

Harry Herskowitz
Chair of the Board

MESSAGE FROM THE PRESIDENT AND CEO

The year 2009 can be captured in two words: The economy. It dominated the headlines and saw governments engage in huge stimulus spending in an effort to rescue us from an impending recession. At Tarion, we feared the Ontario housing market might collapse. We worried about how declining new home enrolments and reduced home enrolment fees would impact our ability to deliver the level of service that homeowners and builders require.

Fortunately, enrolments did not decline as precipitously as we had forecast. While we had anticipated that just below 30,000 new homes would be enrolled in the warranty program during 2009, this number actually reached 47,649. However, we realized that the market would not recover quickly and we would have to become a much more efficient organization over time without compromising customer service.

Challenging times can often prove an inspiration. At Tarion we took this past year to reach out to our stakeholders and let them tell us how we could become a better organization. *You spoke and we listened.*

We engaged a market research firm to help us survey both our customer groups: homeowners and builders so that we could learn more about what they feel we do well and where we could improve. We heard from more than 10,000 homeowners representing all stages of the seven year warranty—the first time Tarion has completed a survey of this magnitude. We conducted a similar survey among 275 active builders. A fuller description of the results can be found in the Providing Services and Support section of this report.

We also commissioned The Hay Group to survey our employees. The results of this research are important because the way staff view the organization directly impacts the service they provide to customers. In terms of overall results our employee engagement score was three per cent higher than the results of a similar survey conducted in 2007 and 10 per cent higher than a group of 500 North American companies that participated in a similar survey. The detailed findings are being analyzed and will be used to improve employee training.

Last year we also negotiated a new Accountability Agreement with the Ministry of Consumer Services that will provide further transparency to consumers. In addition we launched the first of what will now be annual public meetings to provide all of our stakeholders with the opportunity to hear about our business and financial results as well as meet and interact with the Tarion Board of Directors and senior management.

In an effort to improve public consultation, Tarion established a Non Builder Industry Expert Group which provides an avenue for us to consult with professionals from the residential construction industry on our policy development process. This group includes home inspectors, building officials, condominium corporation representatives and other interested parties. We also made an improvement to our corporate governance with the creation of a Regulatory Affairs Committee, made up of members of our Board, that will oversee regulation changes going forward. In 2010 we will be expanding this effort to include formal public consultation on key policies and regulations.



A handwritten signature in black ink that reads "Howard A. Bogach".

Howard Bogach
President &
Chief Executive Officer

MESSAGE FROM THE PRESIDENT AND CEO

On the education front, we developed a new homeowner welcome package that will be delivered to purchasers within the first 30 days after they take possession of their new home. It includes a 10-Minute Warranty Guide DVD and highlights key dates and useful tools such as MyHome, our homeowner portal launched last year to allow homeowners the convenience of managing their warranty online. We also established educational webinars to help purchasers better understand the warranty.

In addition, we re-instated a past practice that has the potential to significantly reduce the time and expense of conciliation inspections for builders, consumers and Tarion. It is an outreach program in which our staff intervenes early in the warranty process to help homeowners understand what is covered and ensure builders are honouring their warranty obligations. We will be monitoring this program throughout 2010 and expect it to improve our overall service effectiveness.

We think all of these initiatives have made Tarion more accessible and responsive to our stakeholders. Our objective in 2010 will be to build on these accomplishments, while continuing to be open to change and willing to listen to the voices we were created to serve at Tarion Warranty Corporation.

PROVIDING SERVICES AND SUPPORT

The Warranty Program

New home buyers in Ontario are entitled to limited warranty coverage of up to \$300,000 over a seven year term which is provided by the builder and backed by Tarion. There is also separate coverage of up to \$2.5 million for the common elements of a condominium (such as a lobby or garage).

Builders must enrol every new home with Tarion at a cost that is based on the selling price of the home and ranges from \$535.00 to \$1,650.00 (plus GST and RST). The warranty provides excellent value and remains with the home for seven years, even if it is sold during this period. While the vast majority of builders are able to resolve any deficiencies or other issues that arise to the satisfaction of their homeowners, Tarion is here to help in the event that a dispute about coverage does arise.

We administer the warranty and ensure that builders observe specific customer service standards. We also provide a process for making claims that involves working with the homeowner and builder, as well as other parties such as the local municipality when needed to negotiate a binding solution. In the event that we determine that a builder is unwilling or unable to address a statutory warranty issue, we will work directly with the homeowner to resolve the matter.

If a homeowner disagrees with our decision, they may appeal through the province's Licence Appeal Tribunal. If they feel that they have not been treated fairly by Tarion, they may contact our newly established New Home Buyer Ombudsperson. Builders who disagree with a Tarion decision may appeal it through the Tarion Builder Arbitration Forum.

Coverage Highlights

- Protection of deposits up to \$40,000 for freehold homes and \$20,000 for condominium units.¹
- Compensation for certain types of delays in closing or occupancy.
- A one year warranty requiring that the home is fit for habitation as well as free from defects in materials and violations of the Ontario Building Code.
- A one year warranty providing protection against certain kinds of improper substitutions.
- A two year warranty that protects against defects allowing water penetration through the foundation and building envelope, defects in the electrical, plumbing and heating systems and the exterior cladding, and health and safety violations of the Ontario Building Code.
- A seven year warranty that protects against work and material defects that adversely affect a load-bearing part of the home's structure, cause it to fail or significantly affect use of the building as a home.

¹ Condominium deposits in excess of \$20,000 are protected by the excess deposit provisions of the *Condominium Act*.



Tarion administers the warranty and ensures that builders observe specific customer service standards.

PROVIDING SERVICES AND SUPPORT

Builder Licensing

In addition to standing behind the builder's statutory warranty, Tarion acts as the Regulator of the home building industry. As such, we are responsible for licensing all new home builders in the province and ensuring they have the technical experience, customer service capabilities and financial capacity required to build new homes. Builder licensing occurs annually and it involves the establishment of individual terms and conditions of registration in accordance with the *Ontario New Home Warranties Plan Act*. This information as well as a builder's performance in constructing and servicing homes is used to determine conditions of registration when assessing a license renewal.

If a builder is unwilling or unable to honour their warranty obligations, there are a number of penalties that may result. The terms and conditions of their registration may be changed such that:

- The builder is limited in the number of homes they can construct;
- The security they are required to provide to Tarion is increased or held for a longer period of time;
- A Tarion-approved customer service plan is put into place and which we then audit for compliance; or
- Their license is revoked.

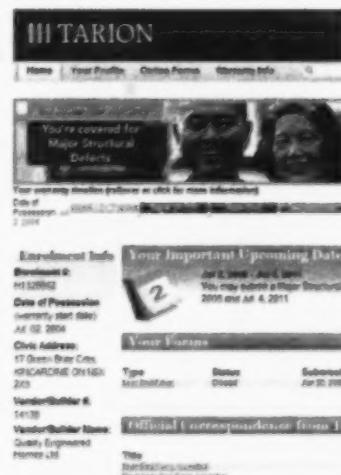
Educating Consumers and Supporting Builders

Helping Homeowners Understand Warranty Coverage

Tarion devotes considerable resources to helping homeowners understand the benefits and limitations of their new home warranty through our website, publications and Contact Centre.

In 2009, we moved our popular New Home Buyer Seminars online which gave new and prospective home buyers across the province convenient access to warranty information through our website. Our first online seminar called "Understanding Warranty Coverage" explains what is and is not covered, how homeowners can make a claim and when and how to access the services we provide. Our next topic, "What to Expect at a Tarion Inspection" will launch in the first half of 2010. It guides homeowners through a warranty inspection and explains what will happen, how we make decisions about coverage and what recourse is available should a homeowner disagree with the outcome.

Another significant initiative launched last year is MyHome—a new online service that gives homeowners a way to manage their warranty online that is convenient, easy-to-use and environmentally-friendly. MyHome gives purchasers access to personalized enrolment and warranty information, allows them to submit warranty forms quickly and easily and lets them receive email from Tarion highlighting key warranty dates and information. In the first six months of 2009, over 5,000 homeowners signed up for this new service.



MyHome allows customers to submit warranty forms online – quickly and easily.

PROVIDING SERVICES AND SUPPORT

We also developed a welcome package for homeowners which most will receive during the first 30 days after they move into their new home. It includes a letter explaining key dates such as the first deadline for submitting warranty issues to their builder and Tarion. It also contains a 10-Minute Warranty Guide DVD that highlights warranty features which can be viewed on tarion.com as well.

Other education and awareness initiatives in 2009 include publication of a monthly by-line in the Toronto Sun authored by Tarion President & CEO Howard Bogach, increased media coverage of illegal building, new targeted and cost-efficient advertising and the first Tarion Annual Public meeting which was held in April, 2009.

Supporting Builders in a Challenging Economy

The last several years brought significant evolution to the new home marketplace in Ontario. Rising consumer expectations, reduced land availability and changing demographics have been a reality for some time. These trends combined with demand for "green" technologies and the challenges of a difficult economy put many builders in a situation that required them to look differently at how they do business.

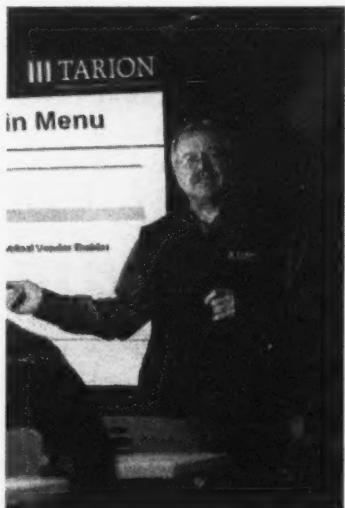
Tarion has a dedicated Builder Relations team that helps ensure builders understand and comply with their obligations under the *Ontario New Home Warranties Plan Act*. They monitor projects in order to flag potential problems and help builders deal with after-sales service issues before they escalate. In addition, they help facilitate the sharing of best practices within the residential construction industry and offer technical, administrative and customer advice to help builders understand the warranty requirements.

Warranty Resolution

Tarion is responsible for ensuring homeowners receive the coverage they are entitled to under the *Ontario New Home Warranties Plan Act*. Our *Homeowner Information Package* explains warranty coverage and outlines our role as well as the role and responsibilities of the builder and the homeowner. Builders are required to provide a copy of this booklet to purchasers on or before their pre-delivery inspection. It also includes forms for submitting deficiencies to builders and Tarion. With the launch in 2009 of our new homeowner portal, purchasers are now able to conveniently submit forms online as well as through traditional methods.

After a form is submitted, builders have a set period of time to resolve warranted deficiencies and, if a homeowner is not satisfied with the outcome, they can call Tarion and request a conciliation inspection. Our Contact Centre is open Monday to Friday from 9 a.m. to 5 p.m. and the staff is available to schedule inspections, provide information and respond to questions and concerns.

When an inspection is scheduled, a member of our Claims staff may visit the home to determine whether the item(s) in question is covered under warranty. If it is, the builder will have 30 days to make the repair(s). When this period elapses, we will contact the homeowner to determine the status of the item(s). Should the matter not be resolved, we will re-inspect the home if necessary and work directly with the homeowner to settle the matter.



In 2009, Builder Relations held 58 File Review Clinics providing builders assistance in carrying out their warranty obligations.

PROVIDING SERVICES AND SUPPORT

How We've Improved the Claims Process

It is our goal to be both helpful and efficient in our oversight of warranty coverage and to ensure that all parties receive fair treatment. In 2009 we held a series of homeowner focus groups to help us understand what we could do to better serve their needs. Many expressed a desire for better communication throughout the claims process and greater flexibility in our processes.

We looked at how we could improve our services and put several new initiatives in place. These included relaxing our form submission timeline to allow for the acceptance of forms that are received one day late. We also expanded a pilot project that involved calling homeowners who had requested an inspection to better understand their concerns and explain the warranty coverage that is available to them. In addition, we have made an effort, wherever possible to try and expedite the resolution of claims, as staff in our Claims, Contact Centre, Builder Relations, and Licensing and Underwriting departments work together to ensure that matters are resolved as frequently as possible without requiring further intervention from Tarion.

Listening to and Engaging Customers

Toward the end of 2009, Tarion once again commissioned customer research through an independent third party to measure how we are viewed by homeowners and builders. We conducted similar studies during the previous two years and are now able to look at the results over time. Our intention in seeking consistent feedback is to assess customer satisfaction and determine what we need to focus on in order to continually improve. Detailed results from 2009 homeowner and builder surveys can be found on tarion.com. All surveys were conducted by Crunch Research in partnership with Harris Decima.

Understanding Homeowner Experiences with Tarion

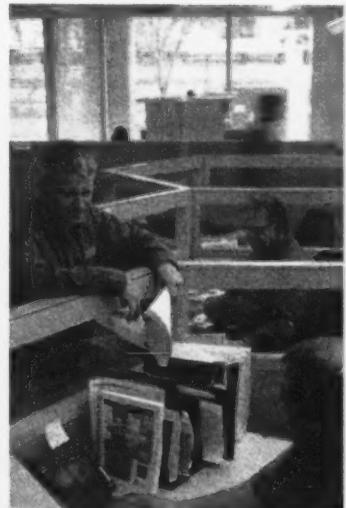
Our homeowner satisfaction survey was broadened in 2009, as we sought responses from purchasers in all stages of the seven year warranty. Previously, we had only surveyed homeowners who were in their first year of possession. Questionnaires were sent to more than 38,000 consumers who took possession of a home between October 1, 2008 and September 30, 2009* and 9,000 randomly selected homeowners who took possession of a new home between October 1, 2002 and September 30, 2008**. In total, over 10,000 homeowners responded.

Results from the survey of homeowners in their first year of warranty coverage generally mirror those from a similar survey conducted in 2008.

- Impressions of Tarion remain positive with over 85 per cent of homeowners perceiving the organization favourably and 57 per cent expressing high levels of satisfaction with their Tarion interactions.

* Results are accurate to within +/- 1 per cent 19 times out of 20.

** Results are accurate to within +/- 2.7 per cent, 19 times in 20.



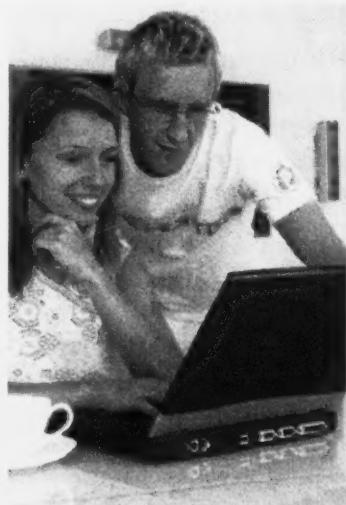
Staff across several departments work together to ensure that matters are resolved as frequently as possible without requiring further intervention from Tarion.

PROVIDING SERVICES AND SUPPORT

- Most homeowners view us as accessible (89 per cent), able to listen to their needs and concerns (80 per cent), easy to do business with (81 per cent), able to help them understand their warranty rights and responsibilities (83 per cent) and able to make sure builders fulfill their warranty obligations (77 per cent). None of these measures varied by more than one per cent in comparison with the previous year's results.
- Fifty-seven per cent were extremely or very satisfied with the service they received (compared with 59 per cent in 2008).
- Among those who interacted with us by telephone, email, or mail, responses were consistent with 2008 results.
- Conciliation inspections represent an area of particular improvement. Sixty-four per cent of homeowners who had a conciliation or claim inspection said they were highly satisfied with the courtesy of their Tarion representative – a four per cent increase over the previous year's results. In addition, 59 per cent were highly satisfied with how their representative listened to their needs and responded to their questions (an increase over the 2008 results of four per cent and five per cent respectively).

Results of the survey among homeowners in their second through seventh year of warranty coverage indicate that satisfaction levels decline marginally in years two through five and more steeply in years six and seven.

- It is important to note that homeowners in year six or seven of warranty coverage took possession of their home between October 1, 2002 and September 30, 2004. Most did not benefit from improvements made during this period which included the launch of Construction Performance Guidelines (April 2003), mandatory customer service standards for builders (October 2003) and a centralized Customer Service Centre (June 2004).
- Impressions of Tarion decline marginally among homeowners in each of the first five years of possession dropping more steeply in years six and seven. Satisfaction levels with Tarion interactions follow the same pattern, although only between 11 and 15 per cent of homeowners reported having any contact with us after their third year of possession.
- Among those who did have contact with Tarion during years two through seven of their warranty, at least 79 per cent viewed us as accessible across all years of warranty coverage and when asked if we were easy to do business with, results ranged from 78 per cent among those in year two of the warranty to 51 per cent among those in year seven.



Eighty three per cent of homeowners viewed Tarion as helping them understand their warranty rights and responsibilities.

PROVIDING SERVICES AND SUPPORT

YEAR OF WARRANTY COVERAGE	FAVOURABLE IMPRESSION OF TARION	HIGHLY SATISFIED WITH TARION INTERACTIONS
Year 1	85%	57%
Year 2	78%	51%
Year 3	77%	47%
Year 4	71%	37%
Year 5	73%	44%
Year 6	51%	24%
Year 7	59%	25%

Understanding Builder Experiences with Tarion

A survey of builders was also commissioned in 2009. It was conducted by telephone among 275, randomly selected builders who were registered with Tarion and had at least one possession during the previous 12 months. Results were statistically weighted to reflect the distribution of builders across the province by size and region.***

Where possible, the measures below are compared to the results of a similar survey completed in 2007.

- Despite the effects of a weak economy, 87 per cent of builders expect a promising or stable marketplace over the next 12 months.
- Thirty-eight per cent are highly satisfied with Tarion's overall performance (compared with 55 per cent in 2007).
- Sixty-six per cent of builders describe their relationship with Tarion as "excellent" or "very good" and 73 per cent are willing to say positive things about us to others if asked.
- Ninety-three per cent of builders view Tarion as accessible (compared with 90 per cent in 2007), 75 per cent said we are fair (compared with 86 per cent in 2007) and 81 per cent view us as consistent (compared with 80 per cent in 2007).
- In addition, 73 per cent see us as easy to do business with, 70 per cent feel we listen to and understand their needs and concerns (compared with 86 per cent in 2007) and 74 per cent believe we are effective at handling homeowner claims (compared with 87 per cent in 2007).
- In 2007, 11 per cent of builders said they had issues with the changes we had made during the previous two years. In 2009, after we introduced several fee increases and changed the terms of warranty coverage to make builders responsible for claims over \$150,000 (to a maximum of \$300,000), the percentage of builders with concerns about changes we had made jumped to 42 per cent. Major concerns included fee increases, the "off-loading" of warranty liability to builders, fairness and the need for improved communication.

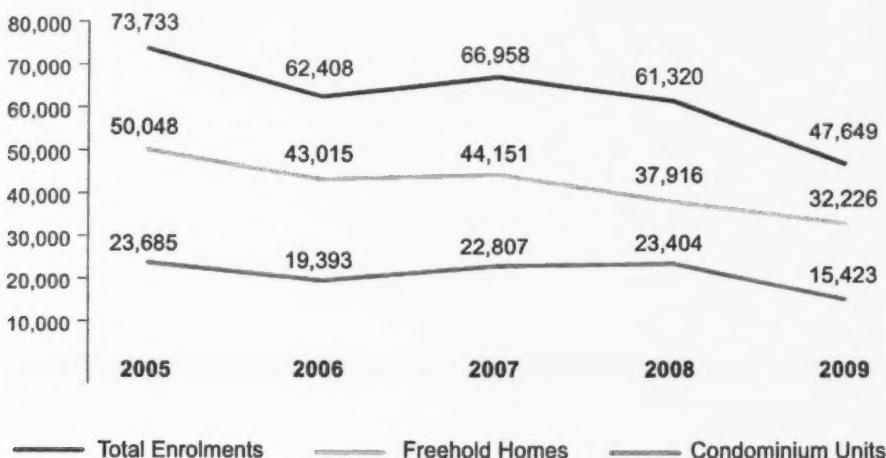
***Builder survey results are accurate to within +/- 5.9 per cent, 19 times out of 20.

OPERATIONS OVERVIEW

Builder Licensing and Underwriting

After several strong years the residential construction industry was significantly impacted in 2009 by the economic shift as the global financial crisis that had begun in late 2008 began to take hold of the housing market. Fortunately, by the end of the year, things had stabilized somewhat as consumer confidence improved slightly. Tarion had forecast 30,000 new home enrolments for the year, and although actual enrolments exceeded this number by almost 60 per cent, the 2009 total was still far lower than the 61,320 new homes that had been enrolled in the warranty program in 2008.

NEW HOME ENROLMENTS



Although condominium enrolments dropped, demand for condos is expected to continue, particularly in the GTA.

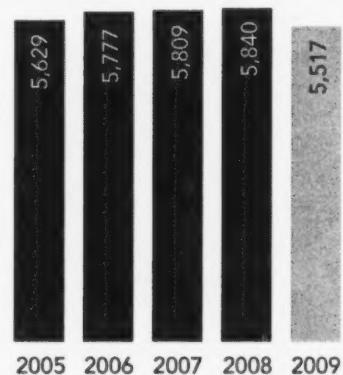
Product mix was also affected by the economy as condominium unit enrolments dropped by almost 52 per cent, a far steeper decline than we saw for freehold home enrolments which were down only 15 per cent. This marked the reversal of a trend which had seen condominium units gaining in popularity with new home buyers. Rather than attributing this decline to a change in consumer demand, it is more likely the result of reduced access to the credit needed by builders for capital-intensive condominium construction as banks continue to tighten lending requirements. Condominium projects are expected to remain a large part of the new home market going forward, especially in the GTA where land is scarce and building "up" rather than "out" has become a necessity.

The "credit crunch" may also have been a factor in the decline in the number of registered builders which fell from 5,840 in 2008 to 5,517 in 2009 after several years of growth. During the past year, 94 builders were denied a license or had their license revoked by Tarion.

Protecting the Guarantee Fund

With a challenging economy looming, Tarion faced a reduction in enrolment and registration fees and an increase in claims if builders were forced to cut back on customer service staff. Not knowing how long the decline would last, it was important to protect the Guarantee Fund which Tarion uses to pay homeowner claims when a builder is unwilling or unable to honour their warranty obligations.

BUILDERS REGISTERED



OPERATIONS OVERVIEW

With a view toward cost recovery, as part of our 2009 Business Plan, we planned a series of fee increases which took effect throughout the year. The fee for newly registered builders was raised from \$600.00 to \$2,500.00 and the license renewal fee was increased from \$300.00 to \$500.00. Neither of these fees had changed in 18 years and they no longer came close to covering the costs of regulating the industry. Charges were also introduced for late renewals and use of deposit trust agreements both of which put an administrative burden on Tarion that needed to be funded more appropriately. Finally, home enrolment fees, which had not changed significantly in 10 years were also increased by an average of \$150.00 per home and the cap on these fees was raised to include homes that sell for up to \$1,000,000.00.

To further protect the Guarantee Fund, Tarion requires builders to post security in certain cases. This can be done in the form of surety bonds, letters of credit, deposit trust agreements, cash or indemnity agreements. In 2009, total security held was 1.7 billion dollars—a reduction of 4.2 per cent over security held in 2008 due primarily to a drop in high-rise condominium enrolments.

Warranty Service

After a home is enrolled with Tarion, construction takes place. When it is complete, the purchaser takes possession of the home marking the start date of the statutory warranty. Although possessions have been trending downward for several years, at 45,584 the level of possessions in 2009 continues to generate a high level of activity.

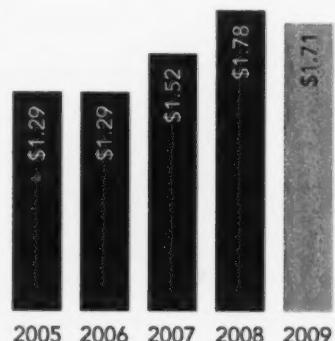
Homeowners have two opportunities during the first year of possession to involve Tarion in their warranty service. The first opportunity is during the first 30 days after taking possession of their home and the second is during the last 30 days of their first year of possession. To involve Tarion, a homeowner must complete one of the forms in the Tarion Homeowner Information Package or available on MyHome, our new online homeowner portal (which is described in more detail in the Helping Homeowners Understand Warranty Coverage section of this report).

Warranty Service Trends

The percentage of homeowners who submit 30-Day Forms to Tarion has been slowly rising since 2003 when we introduced a formal customer service standard process. While the reason for the increase is not clear, our research indicates that homeowners do not have a good understanding of their home warranty coverage. Involving Tarion may be one way they can find out what is and is not covered. To help increase their understanding we have focused more on educational activities in recent years launching initiatives such as new home buyer seminars, online advertising and consistent placement of articles in the new home sections of newspapers across Ontario.

It is important to note that most warranty service issues are resolved between the homeowner and the builder without Tarion's involvement. In any given year less than three per cent of homes under warranty will have a Tarion conciliation inspection that results in a warranted item. This is because most builders in Ontario meet or exceed our

BUILDER SECURITY HELD
(\$billions)



Less than three per cent of homes have a conciliation inspection that results in a warranted item as most builders resolve issues directly with the homeowner.

OPERATIONS OVERVIEW

WARRANTY SERVICE STATISTICS	2009	2008	2007	2006	2005
Total homes under warranty	431,981	455,986	458,916	457,475	451,612
New home possessions	45,584	56,569	60,120	61,490	66,032
Number of 30-Day forms submitted	22,721	27,601	26,981	26,996	28,353
Percentage of homes for which 30-Day forms were submitted	50%	49%	45%	44%	43%
Number of Year-End forms submitted*	n/a	25,807	24,884	24,760	25,682
Percentage of homes for which Year-End forms were submitted*	n/a	46%	41%	40%	39%

* Year-end form data for 2009 possessions will not be available until December 31, 2010.

customer service requirements and resolve homeowner issues without involving Tarion. The 30-Day, Year-End and Second-Year forms help facilitate this by allowing homeowners to highlight potential warranty issues so they can be addressed by the builder. If there is a dispute about the method of repair or whether an item should be covered, Tarion will step in and decide whether coverage should apply. The builder will then be required to make the necessary repairs or we will work directly with the homeowner to resolve the issue.

New Technology Complicates Warranty Coverage

Although the percentage of homeowners who have a conciliation inspection is low, in 2009 we began to see a trend toward increasingly complex issues and claims. This is partly due to the movement toward green technology and other state-of-the-art building products that are new to the market. When such products do not perform as expected, repairs can be complicated and costly. We now try to intervene in developing issues by assigning a single point of contact to a homeowner early in the process to increase the level of communication and ideally help minimize their frustration and better manage expectations about what they are entitled to in terms of coverage. In some cases, we will also work with the builder to expedite resolution before an issue escalates to a conciliation inspection.

We have also taken a new approach when a group of homeowners has the same issue. In these cases we will hold a "town hall meeting" with all those affected to review the situation and allow the builder or their engineer to explain to the whole group how repairs will be made. We may re-convene periodically for updates or distribute information to keep affected homeowners and their neighbours up-to-date on the status of repairs. The outcome of this approach has been better communication and a greater level of co-operation between homeowners and the builder and increased efficiency for Tarion.

OPERATIONS OVERVIEW

Claims Paid on the Rise in 2009

If a homeowner is unable to resolve an issue with their builder and we determine that the item is covered under the statutory warranty, we will work directly with the purchaser to resolve the matter. In 2009, 1,452 claims totalling \$20.9 million were paid by Tarion. This represents a 50 per cent increase over claims paid in 2008 primarily due to three factors: 1) an above average volume of warranted items in the latter part of 2008 which resulted in claim payments the following year; 2) a higher than usual number of small claims in 2009 due to builders who encountered financial difficulties and were unable to complete repairs; and 3) a long term, high cost repair project involving a subdivision was commenced in 2009.

	2009	2008	2007	2006	2005
Number of Claims Paid	1,452	1,304	1,059	1,189	1,181
Claims Paid (\$ millions)					
Freehold Homes	17.8	10.8	8.9	8.8	8.8
Condominium Units	0.6	0.6	0.9	0.3	1.5
Condominium Common Elements	2.5	2.6	3.2	2.6	3.2
Total Claims Paid	20.9	14.0	13.2	11.9	13.5

A Second Avenue of Assistance

Once a decision about warranty coverage is made by Tarion, a homeowner has the right to an appeal if they do not agree with our determination. Builders also have the right to appeal decisions by Tarion if we refuse or revoke their licence to build homes. These appeals are accomplished through an informal process conducted independently by the Ontario Licence Appeal Tribunal (LAT). In 2009, 166 consumer appeals were filed with LAT (up from 151 the previous year) and 56 builder appeals were filed (up from 52 in the previous year).

There is also a quick and easy process for homeowners who wish to make a complaint to Tarion. First they call us and we will escalate their concern to the Vice President of Customer Services.

Those who feel they have not been treated fairly by Tarion can also turn to our New Home Buyer Ombudsperson Office which is available to provide an objective perspective for consumer concerns and determine whether a decision was made fairly. The Office is meant to supplement and not replace formal channels. Accordingly, it does not make warranty decisions, mandate policies, or formally adjudicate issues for Tarion, but can make recommendations to management and the CEO and the Board of Directors.

For more information about the New Home Ombudsperson Office or for a copy of the 2009 Ombudsperson Annual Report visit www.tarion.com.

OPERATIONS OVERVIEW

Customer Centre

The Tarion Customer Centre is one of the first places that homeowners and builders can go if they want to ask a question or discuss an issue or concern. In 2009, Tarion responded to more than 101,000 telephone calls and over 15,000 emails. Customers are most likely to call us with questions about warranty coverage or the claims process or if they are looking for information about the status of their claim. In addition, nearly 6,000 people visited the Tarion Customer Centre to drop off warranty forms and other documents or meet in person with Tarion representatives regarding a question or issue.

Flexibility – An Important Component to Homeowner Satisfaction

The Customer Centre also processes warranty forms and schedules inspections when homeowners have a dispute with their builder which they would like Tarion to mediate. After focus group research indicated that some homeowners felt our claims process was inflexible, we began to offer a grace period of one day for late form submissions—an initiative that has been well-received by homeowners. In response to feedback that we needed to do a better job of listening to and helping homeowners understand their coverage, we began putting more focus on explaining the claims process and helping to resolve issues without the need for a conciliation inspection. This can be beneficial to all parties particularly when an issue is unlikely to be covered or if there is an opportunity to involve our Licensing and Underwriting and Builder Relations Departments in resolving a claim before it escalates to a conciliation inspection.

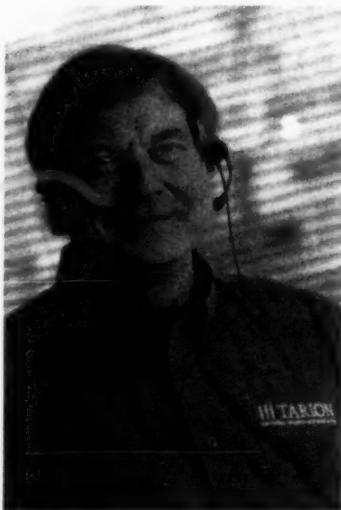
Complaint Tracking

The Customer Centre also tracks all complaints received about Tarion's staff, our services and the warranty process. In 2009, we received 387 complaints, of which the vast majority (89 per cent) were about the timeliness of our claims service, specific warranty decisions or the warranty process in general. The remaining 44 complaints were about Tarion staff regarding matters such as rudeness and late or unreturned calls. This is a 65 per cent reduction over complaints received in 2008. The drop may be due in part to the more proactive and flexible approach that we have adopted when managing claims. In addition, potentially serious issues are quickly elevated at the time they are received so they can be reviewed by a manager-level employee who determines whether immediate additional action is required.

Illegal Building

Illegal building hurts the reputation of the building industry, costs Tarion millions of dollars in unnecessary claims and burdens the provincial and federal governments with lost tax revenues and claims to the Workplace Safety and Insurance Board.

When the economy weakens, illegal building tends to increase as some individuals seek to avoid paying the licensing or new home enrolment fees required in Ontario. Consequently they are either unlicensed or they may simply avoid enrolling the homes they build in the province's mandatory new home warranty program. This means the purchasers are unaware that their home comes with seven years of warranty coverage worth up to \$300,000. In addition, illegally built homes often do not meet Ontario Building Code standards.



More time was devoted to helping homeowners understand their coverage and the claims process so that issues could be resolved without the need for a conciliation inspection.

OPERATIONS OVERVIEW

Protecting Homeowners from Illegal Builders

Tarion's Enforcement team, which consists primarily of former police officers, tracks down, charges and prosecutes illegal builders. In 2009, their efforts led the provincial courts to convict 241 builders and levy fines totaling \$1,040,000—a 22 per cent increase over 2008 and the highest in the corporation's history.

ENFORCEMENT ACTIVITY	2009	2008	2007	2006	2005
New Investigations	419	601	449	759	993
Fines Levied (\$ thousands)	1,040	851	616	674	817
Charges Laid	353	583	586	364	243
Convictions	241	379	320	218	287

This past year also marked a change in strategy regarding how Tarion handles the problem of illegal building. The Enforcement team began directing more energy toward plea bargaining prosecutions with a view to reducing legal costs. In addition, they worked with the Licensing and Underwriting Department to ensure defendants posted the necessary level of security in place of paying large fines. This resulted in a significant increase in the amount of security paid into the Tarion Guarantee fund during the fourth quarter of 2009 compared with the same period during the previous year.

The number of charges laid during 2009 dropped by 39 per cent as the Enforcement team also focused on addressing older, outstanding files and preparing a more targeted and analytic approach to tracking down offenders. In 2010 a criminal intelligence analyst will be added to help examine municipal building permit information that Tarion will receive directly from the municipal buildings departments beginning in 2011. By comparing it with previous illegal building cases and our other investigation sources, we hope to focus more effectively on finding and prosecuting illegal builders. This new approach is the result of an information-sharing agreement established in 2009 with the Ministry of Municipal Affairs and Housing.



An illegal home builder was fined an unprecedented \$240,000 in December 2009.

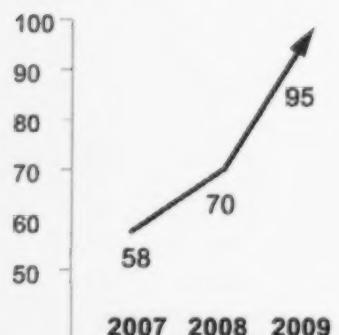
OPERATIONS OVERVIEW

Education and Partnerships Pay Off

Over 300 Ontario Justices of the Peace participated in educational seminars last year to help them better understand the impact of illegal building on homeowners and honest builders. The sessions were very well-received and we anticipate that an increased appreciation for the damage inflicted on innocent victims will result in increased fines and jail sentences for illegal builders. This trend may already have begun with one repeat offender receiving a 45-day jail sentence in 2009 and another being handed an even steeper 90-day jail sentence.

The role played by consumers in helping combat illegal building has also increased over the last three years, potentially due to increased and sustained media coverage about illegal building—both in large daily and smaller community newspapers—as well as targeted advertising campaigns including billboards that are placed in areas with particularly high numbers of illegal builders. In 2009, 33 “consumer hotline” tips resulted in 16 new investigations. Tips from consumers via the hotline have risen substantially over the past year, in part due to the increased illegal building media coverage.

CONSUMER ORIGINATED HOTLINE TIPS



CORPORATE GOVERNANCE

Corporate Leadership Team

Howard Bogach President and Chief Executive Officer	Mike E. Coté Vice President, Builder Relations	Tim P. Schumacher Vice President and General Counsel
David J. Guiney Senior Vice President, Operations	Eileen M. Holden Vice President, Human Resources	Suzanne M. Tiffin Vice President, Customer Service
Peter Balasubramanian Vice President, Claims	Janice Mandel Vice President, Corporate Affairs	A. Pat Varcoe Vice President, Licensing and Underwriting
John E. Becevello Vice President and Chief Financial Officer	Robert P. Mitchell Director, Industry and Government Relations	Bill R. Wallace Vice President, Information Systems

CORPORATE GOVERNANCE

Board of Directors



Harry Herskowitz
Chair
Partner
Delzotto, Zorzi
Toronto



Christopher S. Spiteri
Vice Chair
Barrister and Solicitor
Augustine Bater
Polowin LLP
Ottawa



Howard Bogach
President and Chief Executive Officer
Tarion Warranty Corporation
Toronto



Bob Aaron
Barrister and Solicitor
Aaron & Aaron
Toronto



Mark Basciano
President
Mountainview Homes
Thorold



Dick Brouwer
Partner
Zebro Development Ltd.
London



Deborah Brown
Director of Operations
Office of the Deputy Minister
Ministry of Government Services
Toronto



S. Scott Cameron
President
Cameron Stephens Mortgage Capital Ltd.
Toronto



Robert Cooper
President
Alterra Group of Companies
Toronto



Brian K. Johnston
President
Monarch Corporation
North York



Harold Levy
Corporate Director
Toronto



Michael Lio
President
Lio & Associates
Toronto



Bob Ridley
President
Building Better Home Builders
Ottawa



Peter Saturno
President
Midhaven Homes
Oshawa



Peter R. Smith
President
Andrin Homes Limited
Brampton



James Bazely
(Associate Member)
President
Gregor Homes
Barrie



G. Peter Oakes
(Associate Member)
Corporate Director
Toronto

CORPORATE GOVERNANCE

Governance Policies

The Board of Directors of Tarion Warranty Corporation is committed to a series of governance policies which are intended to support the supervisory role of the Board and to ensure that the Corporation acts in the best interest of its stakeholders. Some highlights of the Board's current governance practices include the following:

Independence

To ensure independence of the Board and management, an outside Director acts as Chair of the Board. Only one Director, the President and Chief Executive Officer, is a member of Tarion management.

Board Composition

In accordance with the by-laws of the Corporation, membership on the Board of Directors is comprised of a number of stakeholders with an interest in the home building industry in Ontario, including representatives of all stakeholders. The by-laws of the Corporation provide for the appointment of Directors from nominees recommended by each of the OHBA and the Ministry of Consumer Services and from an individual with a background from a financial institution. The 2009 Board was composed of 15 members and two associate members.

Financial Controls

The Audit Committee of the Board is composed entirely of outside and unrelated Directors whose responsibilities are set forth in a detailed Committee mandate. The Committee has the ability to deal directly with the external auditor regarding the Corporation's annual financial statements, and with the external actuary regarding the warranty liabilities of the Corporation.

Risk Management

The Board, together with the Audit Committee, monitors, reviews and approves adherence to corporate policies to manage and control risk, as well as compliance with policies of the Corporation and regulatory requirements.

Strategic Planning

The Board engages in a strategic planning process each year which takes into account business policy initiatives and opportunities, as well as operational and financial risks. Throughout the year, the Board reviews corporate performance against the Corporation's annual business plan and the current strategic plan.

Annual Performance Objectives

The Board approves the annual corporate business plan as well as the annual objectives of the President and Chief Executive Officer and the corporate key performance indicators.

Code of Governance Practices

Each member of the Board is required to sign a Code of Governance Practices that has been approved by the Board. This Code is intended to assist the Directors in performing their responsibilities to the Corporation with appropriate discipline and dedication.

CORPORATE GOVERNANCE

Responsibilities of the Committees of the Board

Audit Committee

G. Peter Oakes – Chair

S. Scott Cameron – Vice Chair

Dick Brouwer

Harold Levy

Peter Saturno

Christopher S. Spiteri

The Audit Committee, composed entirely of independent Directors, reviews the annual audited financial statements and financial operating performance, the assessment of reserves and the results of capital adequacy testing. The Committee is responsible for the development and monitoring of policies to address risk management as well as the internal control framework. It also makes recommendations to the Board with respect to the appointment of an external auditor, the external actuary and the pension plan actuary and administrator.

Human Resources & Compensation Committee

Michael Lio – Chair

Robert Cooper – Vice Chair

Harry Herskowitz (ex-officio)

Brian K. Johnston

Harold Levy

G. Peter Oakes

The Human Resources & Compensation Committee is responsible for determining the compensation payable to the Tarion President and CEO and for the determination of the pension and other benefits payable to employees. The Committee works with external compensation advisers who provide information with respect to current market compensation payable to senior executives of comparable organizations.

The Committee is also responsible for approving the annual objectives for the President and CEO, and for evaluating performance against those objectives. It also undertakes an annual succession review of the senior management team in consultation with the President and CEO. The membership of the Committee includes six independent members.

Condominium Committee

Robert Cooper – Chair

Brian K. Johnston – Vice Chair

Bob Aaron

Dick Brouwer

Harry Herskowitz

Bob Ridley

The Condominium Committee is composed of six Directors experienced in the condominium industry and has been established as a forum to facilitate research, provide informed opinion and discussion and make progressive recommendations to Tarion management and the Board of Directors. It also assists in policy development with respect to determining practices and procedures relating to planning, construction and operation of condominium developments in the province of Ontario as they relate to the mandate of Tarion. The Committee utilizes engineering and other available resources to assess emerging risks in the area of condominium development in the province and in quantifying and taking steps to minimize the degree of risk being assumed by Tarion in the execution of its mandate.

Consumer Committee

Christopher S. Spiteri – Chair

Harold Levy – Vice Chair

Bob Aaron

Mark Basciano

Deborah Brown

Michael Lio

Bob Ridley

Peter Saturno

The Consumer Committee acts to provide input to management and the Board on strategic matters with respect to consumer protection initiatives and external communication by Tarion to consumers. It is composed of eight independent members of the Board who represent Tarion's major stakeholders.

The Committee assists Tarion management with consumer policy development and provides insight and input on issues, by making recommendations regarding the development and delivery of consumer protection policies, by analyzing relevant consumer research data and by giving insight into current communication programs and trends.

CORPORATE GOVERNANCE

Governance Committee

Peter Saturno – Chair
Mark Basciano – Vice Chair
Deborah Brown
Harry Herskowitz
Michael Lio
Bob Ridley

The Governance Committee provides recommendations to the Board with respect to governance matters affecting the Corporation. The Committee has responsibility for developing and recommending ongoing improvements to corporate governance, and also to update as necessary the Code of Governance Practices which is executed by each Director annually.

The Committee is also responsible for recommending the Chair for each Board Committee in advance of the Annual Meeting of the Corporation, together with the membership for each Committee. In addition, the Committee recommends the Chair and Vice Chair appointments to the Board for the ensuing year. The Committee is responsible for providing input to the Board nomination process to ensure that the Board has Directors with the appropriate skills and background to address the business issues of the Corporation. The membership of the Committee includes the Chair of the Board, together with five other independent Board members.

Investment Committee

Brian K. Johnston – Chair
S. Scott Cameron
Robert Cooper
G. Peter Oakes
Peter R. Smith
Christopher S. Spiteri

The Investment Committee considers and recommends investment strategies, plans and policies related to the invested assets of the Corporation. The Committee oversees the selection and appointment of one or more investment managers and reviews and approves the investment policies of the Corporation each year. It also reviews reports from fund managers on investment activities and measures investment results against the investment goals of the Corporation. In addition, the Committee is responsible for the management of assets related to the pension plan of the Corporation.

Regulatory Affairs Committee

Harry Herskowitz – Chair
Michael Lio – Vice Chair
Mark Basciano
Peter Saturno
Christopher S. Spiteri

The Regulatory Affairs Committee assists the Board in fulfilling its oversight responsibilities with regard to Tarion's regulation-making powers as provided in the *Ontario New Home Warranties Plan Act*.

It provides due diligence on behalf of the Board of Directors for the planning, research, stakeholder consultation and effecting of each proposed regulation change; evaluates the adequacy and effectiveness of current or proposed legislation or regulations to ensure compliance with the mandate of the Corporation; and ensures that Tarion is meeting its regulatory obligations and responsibilities as set out in its mandate.

Nominations Committee

The Nominations Committee is composed of the Board Chair, an additional select Board member, and ministerial and industry appointees who meet annually to identify candidates for vacant Board positions.

CORPORATE GOVERNANCE

Directors' Attendance

DIRECTOR	BOARD OF DIRECTOR MEETINGS	COMMITTEE MEETINGS
Harry Herskowitz	7 of 7	9 of 10
Bob Aaron	7 of 7	4 of 5
Mark Basciano*	3 of 4	4 of 6
Howard Bogach	7 of 7	23 of 24
Dick Brouwer	7 of 7	5 of 5
Deborah Brown	6 of 7	6 of 7
S. Scott Cameron	6 of 7	7 of 7
Robert Cooper	7 of 7	12 of 12
Julie DiLorenzo*	3 of 3	2 of 3
Brian K. Johnston	4 of 7	12 of 12
Harold Levy	6 of 7	11 of 11
Michael Lio	7 of 7	13 of 13
G. Peter Oakes	7 of 7	12 of 12
Bob Ridley	6 of 7	7 of 8
Peter Saturno	7 of 7	11 of 11
Peter R. Smith	6 of 7	4 of 6
Christopher S. Spiteri	6 of 7	9 of 11
Frank Giannone*	4 of 4	
James Bazely*	3 of 3	

Notes on Director Attendance:

1 The record of attendance of Directors relates to the Meetings of the Board of Directors and of the Board Committees held by the Corporation during 2009.

2 The number of Board and of Board Committee meetings held by the Corporation during 2009 was as follows:

Board of Directors	7
Audit Committee	3
Investment Committee	4
Condominium Committee	3
Consumer Committee	3
Human Resources & Compensation Committee	5
Governance Committee	5
Regulatory Affairs Committee	1
Total	31

* Reflects partial terms of office.

FINANCIAL STATEMENTS

2009 Financial Commentary

The recession that began in the latter half of 2008 was not as deep or prolonged as anticipated. After a slow start in the first quarter of 2009, the housing market in Ontario and investment markets generally, rebounded. The improved economic conditions resulted in the Corporation reporting positive earnings of \$7.6 million and an increase in total equity of \$23.7 million.

The 2009 enrolment level of 47,649 units, although lower than recent years was still considered strong compared to historic averages given the recessionary condition. Despite a decline in comparison to 2008 enrolments of 61,320 units, enrolment fee revenue did not decrease significantly due to fee revisions made in 2009.

Tarion's investment portfolio regained a significant part of its losses when the stock market rebounded mid-year, contributing to a total equity increase of \$16.1 million in the company's stock portfolio. The fixed income portfolio also performed well despite a low interest rate environment.

Total Corporation expenses decreased from \$68.2 million to \$41.9 million as a result of lower net claims incurred and operating expenses as follows:

- The recession did not significantly impact reported claims levels in 2009 resulting in low net claims incurred of \$3.1 million compared to \$26.3 million in 2008. The 2008 provisions of \$36.5 million for new claims was unusually high due to a few large major structural defect claims, and not specifically attributable to the recession. In 2009, new provisions were \$11.6 million representing a return to long term average levels. Recoveries decreased from \$10.2 million in 2008 to \$8.5 million in 2009.
- Tight expense management control resulted in a \$3.2 million decrease in operating expenses.

The Corporation embarked on various initiatives during the year to improve aspects of its operations including introducing a new homeowner portal which allows for on-line submission of forms and an earlier engagement process on reported warranty files to improve communication among homeowners, builders and Tarion.

The Corporation's capital management framework includes a minimum threshold for the Minimum Capital Test ("MCT") and a minimum total equity test to cover a catastrophic loss as defined in the Dynamic Capital Adequacy Testing ("DCAT") performed by the Corporation. The MCT is the same test utilized by property and casualty insurance companies in Canada. The Corporation's MCT as at December 31, 2009 of 331 per cent compares favourably to its threshold minimum of 150 per cent. The Corporation's total equity of \$117.5 million compares favourably to the catastrophic loss threshold of \$84 million.

While the economy is slowly recovering, it is still fragile. Tarion will continue to be diligent in its management of costs and capital to maintain its financial strength.

FINANCIAL STATEMENTS

Management's Responsibility for Financial Reporting

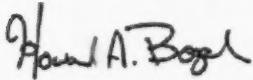
Management is responsible for the integrity of the financial statements and operational information presented in this Annual Report. The financial statements have been presented in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgments. Financial information presented elsewhere in the Annual Report is consistent with these financial statements.

Management maintains a system of internal controls, to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

The external actuary who is appointed by the Board of Directors is responsible for ensuring that the assumptions and methods used in the determination of the warranty liabilities are in accordance with accepted actuarial practice.

External auditors have examined and reported on the annual financial statements.

The Audit Committee, consisting of non-executive directors, has reviewed these financial statements with management and the external auditors and has reported to the Board of Directors, which has approved the financial statements.



Howard Bogach
President and Chief Executive Officer
March 15, 2010



John Becevello
Vice President and Chief Financial Officer
March 15, 2010

FINANCIAL STATEMENTS

Auditors' Report

To the Directors of Tarion Warranty Corporation:

We have audited the balance sheet of Tarion Warranty Corporation (the "Corporation") as at December 31, 2009 and the statements of operations, comprehensive results of operations, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 15, 2010

Actuary's Report

To the Directors of Tarion Warranty Corporation:

I have reviewed the warranty liabilities of Tarion Warranty Corporation for its Balance Sheet as at December 31, 2009 and their change in the Statement of Operations for the year then ended in accordance with accepted actuarial practice, including the selection of appropriate assumptions and methods.

In my opinion, the amount of these warranty liabilities makes appropriate provision for all warranty obligations, and the financial statements fairly present the results of the review.

Jim Christie

James K. Christie
Fellow, Canadian Institute of Actuaries
March 15, 2010

FINANCIAL STATEMENTS

Balance Sheet

December 31, 2009 (\$ thousands)

	2009	2008
Assets		
Cash	\$ 2,851	\$ -
Investments (Note 5)	312,441	293,537
Amounts recoverable from builders (Note 4)	11,613	11,303
Equipment and leaseholds (Note 3, 7)	3,413	3,907
Intangible assets (Note 3, 8)	1,513	2,064
Prepaid expenses and other assets	1,082	1,021
	\$ 332,913	\$ 311,832
Liabilities		
Bank overdraft	\$ -	\$ 439
Warranty liabilities (Note 9)	164,251	168,928
Funds held as security (Note 10)	38,876	39,191
Accounts payable and accrued liabilities	9,928	7,524
Employee future benefits liabilities (Note 11)	2,372	1,987
	215,427	218,069
Equity		
Surplus	97,432	89,842
Accumulated net unrealized gains in the equity portfolio	20,054	3,921
	117,486	93,763
	\$ 332,913	\$ 311,832

See accompanying notes to financial statements.

Approved by the Board

Harry Herskowitz
Director and Chair of the Board

Christopher S. Spiteri
Director and Vice Chair of the Board

FINANCIAL STATEMENTS

Statement of Operations

Year Ended December 31, 2009 (\$ thousands)

	2009	2008
Revenues		
Home enrolment fees earned	\$ 29,183	\$ 30,118
Builders' registration and renewal fees	2,903	2,055
Investment results		
Investment income (Note 5)	17,769	14,279
Investment management fees	(792)	(797)
Other revenue	408	332
	49,471	45,987
Expenses		
Net claims incurred (Note 9)	3,095	26,264
Salaries and benefits	24,565	23,803
General and administrative	11,906	15,661
Depreciation and amortization	2,315	2,516
	41,881	68,244
Excess (Deficiency) of Revenues Over Expenses	\$ 7,590	\$ (22,257)

Statement of Comprehensive Results of Operations

Year Ended December 31, 2009 (\$ thousands)

	2009	2008
Excess (Deficiency) of Revenues Over Expenses for the Year	\$ 7,590	\$ (22,257)
Net Unrealized Gains (Losses) in the Equity Portfolio		
Increase (decrease) due to change in fair value during the year	15,404	(22,466)
Increase for amounts included in		
investment income in the Statement of Operations	729	574
	16,133	(21,892)
Comprehensive Results of Operations for the Year	\$ 23,723	\$ (44,149)

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

Statement of Changes in Equity

Year Ended December 31, 2009 (\$ thousands)

	2009	2008
Surplus, beginning of year	\$ 89,842	\$ 112,099
Excess (deficiency) of revenues over expenses	7,590	(22,257)
Surplus, end of year	\$ 97,432	\$ 89,842
Accumulated net unrealized gains in the equity portfolio, beginning of year	\$ 3,921	\$ 25,813
Change in net unrealized gains (losses) in the equity portfolio for the year	16,133	(21,892)
Accumulated net unrealized gains in the equity portfolio, end of year	\$ 20,054	\$ 3,921
Total Equity, End of Year	\$ 117,486	\$ 93,763

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

Statement of Cash Flows

Year Ended December 31, 2009 (\$ thousands)

	2009	2008
Net Inflows (Outflows) of Cash Related to the Following Activities		
Operating		
Excess (deficiency) of revenues over expenses	\$ 7,590	\$ (22,257)
Add (deduct) non-cash items		
Unrealized and realized gains on held for trading assets	(7,624)	(4,619)
Net realized gains on sale of available for sale assets	(1,849)	(3,550)
Written down on available for sale assets	2,578	4,125
Depreciation and amortization	2,315	2,516
	3,010	(23,785)
Changes in non-cash balances related to operations		
Increase in prepaid expenses and other assets	(61)	(259)
Increase in amounts recoverable from builders	(310)	(5,072)
Increase (decrease) in warranty liabilities	(4,677)	26,260
Increase (decrease) in funds held as security	(315)	2,761
Increase (decrease) in accounts payable and accrued liabilities	2,404	(2,092)
Increase in employee future benefits liabilities	385	324
Cash provided by (used in) operating activities	436	(1,863)
Investing		
Proceeds from sale and maturity of investments	249,853	209,629
Purchase of investments	(245,729)	(206,494)
Purchase of equipment and leaseholds	(1,108)	(513)
Disposal of equipment and leaseholds	422	-
Purchase of intangible assets	(584)	(879)
Cash provided by (used in) investing activities	2,854	1,743
Net Increase (Decrease) in Cash During the Year	3,290	(120)
Cash (Bank Overdraft), Beginning of Year	(439)	(319)
Cash (Bank Overdraft), End of Year	\$ 2,851	\$ (439)
Supplemental Cash Flow Information		
Cash interest paid	\$ 947	915

FINANCIAL STATEMENTS

Notes to Financial Statements

December 31, 2009 (\$ thousands)

NOTE 1 OPERATIONS OF THE CORPORATION

Tarion Warranty Corporation (the "Corporation") was designated in 1976 by the Government of Ontario to administer the Ontario New Home Warranties Plan Act (the "Act"). The objectives of the Act include consumer protection, builder regulation and providing consumers and builders with a broad range of services including information and education. The Corporation collects home enrolment and builder registration fees and invests available funds for the purposes of settling warranty claims from homeowners, and providing for investigation, enforcement, and other administrative costs related to its responsibilities in administering the Act. Warranty protection is outlined in the Act and includes providing a warranty to purchasers of new homes in respect of:

- loss of deposit if a builder cannot or will not complete the sale of a home, through no fault of the home buyer;
- specified construction and contractual warranties for defects in work or material; and
- the effects of delays in closing, under certain circumstances.

As a non-profit organization, the Corporation is exempt from income taxes.

NOTE 2 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In addition, although not required, the Corporation adopts certain guidelines issued by the Office of the Superintendent of Financial Institutions Canada ("OSFI") for property and casualty ("P&C") insurance companies in Canada. These guidelines are in accordance with GAAP.

The preparation of financial statements, in conformity with GAAP, requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual amounts could differ from those estimates. The most significant estimation processes are related to the determination of warranty liabilities and the fair valuation of financial instruments.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies

Intangible Assets

The Canadian Institute of Chartered Accountants ("CICA") issued Section 3064 – *Goodwill and Intangible Assets*, replacing Section 3062 – *Goodwill and Other Intangible Assets* and Section 3450 – *Research and Development Costs*. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Corporation adopted Section 3064 effective January 1, 2009. As a result of adopting this standard, the Corporation has reclassified \$1,513 of software and development net book value (2008 - \$2,064) from equipment and leaseholds to intangible assets. The adoption of Section 3064 did not have any impact on the Corporation's Statement of Operations.

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Amendments to Section 3862 Financial Instruments – Disclosures (Section 3862)

In June 2009, the CICA amended Section 3862 to improve fair value and liquidity risk disclosures for financial instruments. The Section now requires classifying of fair value measurements using a three-level fair value hierarchy, described below, for disclosure purposes. Each level reflects the inputs used to measure the fair values of financial assets and financial liabilities:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are based on unobservable market data.

The adoption of the amended Section 3862 had no impact on the Corporation's financial statements and the expanded disclosures are included in Note 6.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC-173)

Effective January 1, 2009, the Corporation adopted the CICA Emerging Issues Committee ("EIC") Abstract EIC-173, which provides additional guidance on how to measure financial assets and financial liabilities taking into account the Corporation's own credit risk and the counterparty credit risk. The adoption of EIC-173 did not have a significant impact on the Corporation's financial statements.

Financial instruments and Comprehensive Results of Operations

The Corporation designates and recognizes its financial instruments in accordance with the requirements of Section 3855 – *Recognition and Measurement*, Section 1530 – *Comprehensive Income*, and Section 3251 – *Equity*, as described below:

• Held for trading financial assets

Cash, bank overdraft and the fixed income portfolio investments are designated as held for trading financial assets and are measured at fair value with gains and losses, including interest earned, recorded in the Statement of Operations. Transaction costs are recognized in the Statement of Operations as incurred.

• Available for sale financial assets

The equity portfolio investments are designated as available for sale financial assets and are measured at fair value with unrealized gains and losses recognized in the net unrealized gains (losses) on equity portfolio in the Statement of Comprehensive Results of Operations. Accumulated net unrealized gains (losses) in the equity portfolio ("AUGL") form part of the Equity on the Balance Sheet. The cumulative changes in the fair value of available for sale securities are removed from the AUGL and recorded in the Statement of Operations when the underlying security is either sold or there is a decline in value that is considered to be other than temporary. Available for sale assets are assessed on an individual security basis at each balance sheet date to determine whether there is objective evidence of impairment. If there is objective evidence of impairment and the decline in fair value is other than temporary, the accumulated loss is removed from the AUGL in the Balance Sheet equity section and recognized in the Statement of Operations.

Transaction costs are added to the fair value of the available for sale financial assets at acquisition.

• Held to maturity financial assets

No financial assets are designated as held to maturity.

FINANCIAL STATEMENTS

• Loans and receivables

Amounts recoverable from builders are designated as loans and receivables. The carrying value is based on management's best estimate of the recoverable value determined by considering past collection experience, the amount of security held and the existence of guarantees. Where there is evidence that there is impairment in these amounts, the impairment charge is recognized in the Statement of Operations to reduce the carrying value of the financial assets to their recoverable amounts.

• Other financial liabilities

Accounts payable and accrued liabilities, and funds held as security, are designated as other liabilities and are measured at amortized cost using the effective interest method.

The warranty liabilities are specifically excluded from the financial instruments accounting standards.

Revenue recognition

Home enrolment fees are remitted by builders during the year. These fees, net of refunds, are deferred and taken into revenues as earned based on expected claims experience over the warranty period. The deferred portion of home enrolment fees is included in warranty liabilities. If claims experience indicates that home enrolment fees collected will not be sufficient to discharge related liabilities, a provision for premium deficiency is included in the warranty liabilities.

Builders' registration fees are recorded as revenues upon registration and renewal fees are recorded as revenues in the year in which they are due.

Dividend income is recognized as of the ex-dividend date. Interest income is recognized as earned. Net realized gains or losses on investments are recognized on a trade date basis. Unrealized gains or losses based on the fair value in effect at the balance sheet date on held for trading financial assets are recognized in investment income. Unrealized gains or losses on available for sale financial assets are recognized in the Accumulated net unrealized gains (losses) in the equity portfolio until they are realized or until they are considered "other than temporarily" impaired, at which time the losses are charged to the Statement of Operations.

Warranty liabilities

The warranty liabilities include deferred home enrolment fees and warranty claims liabilities. Deferred home enrolment fees represent the unearned portion of home enrolment fees remitted by builders. Warranty claims liabilities include estimates of costs for claims reported and in process, and provisions for claims incurred but not yet reported at the balance sheet date where it is anticipated that costs will be incurred by the Corporation.

The warranty period spans seven years and significant periods of time can elapse between the incurrence of claims liabilities and their settlement. Accordingly, the estimation of the liabilities involves significant measurement uncertainty.

The liabilities are discounted to reflect the investment income expected to be earned over the period between the incurrence and settlement of claims. The discount rate reflects the expected future yield from the fixed interest investments. Provisions for adverse deviation are added to allow for the inherent measurement uncertainty that arises because actual investment yields may differ from the discount rate; because the actual settlements may occur at amounts that differ from expected settlement amounts; and because the timing of settlements may differ from expected timing.

Claims incurred include claims recoveries and changes in the provisions for claims reported and in process and for claims incurred but not yet reported.

Claims recoveries include expected recoverable from builders on claims incurred during the current year and change in the estimate of amounts recoverable from builders from prior years. Estimated amounts recoverable from builders are presented on the balance sheet as an asset of the Corporation.

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Equipment and leaseholds

Equipment and leaseholds are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided at the following rates and bases:

Computer equipment	– straight-line over four years
Computer equipment acquired under capital lease	– straight-line over four years or the term of lease if shorter than four years
Furniture and office equipment	– 20 per cent declining balance
Leasehold improvements	– straight-line over the term of the lease

Intangible assets

Intangible assets are amortized on a straight line basis over three years.

Employee future benefits

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions and other post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimates of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service periods of eligible employees active at the date of amendment.

Currency translation

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the period-end rate. Revenue and expense items in a foreign currency are translated into Canadian dollars at the transaction date rate.

Future accounting changes

International Financial Reporting Standards

Canadian publicly accountable enterprises and certain Government business enterprises are required to adopt International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011, with fiscal 2010 IFRS comparatives. The objective of the change is to move toward the use of a single set of world-wide accounting standards to facilitate and improve the comparability of financial statements globally. Although there are many similarities between Canadian GAAP and IFRS, there are some significant GAAP differences which may impact the Corporation's financial statements.

The Corporation's project to transition to IFRS on January 1, 2011 is underway.

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NOTE 4 AMOUNTS RECOVERABLE FROM BUILDERS

The amounts recoverable from builders is comprised of two types of receivables: the estimated amounts recoverable from builders in respect of outstanding warranty claims recognized under the warranty liabilities; and other receivables from builders representing the estimated realizable value of receivables from builders for warranty claims that the Corporation has paid out on the builder's behalf during the remediation process.

	2009	2008
	Carrying Value	Carrying Value
Amounts recoverable from builders	\$ 8,853	\$ 7,218
Other receivables from builders	2,760	4,085
	\$ 11,613	\$ 11,303

As at December 31, 2009, of the total amounts recoverable from builders, the balance greater than 30 days past due is \$2,187 (2008 – \$3,570) and is not considered to be impaired.

As described in Note 6(c), the Corporation obtains security from builders to minimize its financial losses from future warranty claims. At December 31, 2009, there is \$4,254 (2008- \$4,105) of security held associated with amounts recoverable from builders.

NOTE 5 INVESTMENTS

(a) Fair value of investments:

The Corporation has designated the fixed income portfolio as held for trading financial assets and the equity portfolio as available for sale financial assets. Both classes of assets are reported at fair value on the Balance Sheet.

The following table discloses details of the fair value of the Corporation's investment portfolio as at December 31:

	2009	2008
	Fair Value	Fair Value
Held for Trading Assets		
Bonds issued by federal, provincial and municipal governments	\$ 108,507	\$ 91,987
Financial institution bonds	30,049	35,663
Other corporate bonds	71,577	76,153
Treasury bills	12,297	11,814
	222,430	215,617
Available for Sale Assets		
Equity portfolio	90,011	77,920
	\$ 312,441	\$ 293,537

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(b) Investment income:

	2009	2008
Change in fair value on held for trading assets	\$ 16,341	\$ 13,736
Net realized gains on sale of available for sale assets	1,849	3,550
Writedown on available for sale assets	(2,578)	(4,125)
Dividends from available for sale assets	2,512	2,313
Interest expense – other financial liabilities	(355)	(1,195)
	\$ 17,769	\$ 14,279

(c) Impairment review of available for sale assets:

In determining whether an impairment is to be recognized, management considers factors including the extent of the unrealized losses, the length of time that the investment has been in an unrealized loss position, the financial condition and near-term prospects of the issuer.

As of December 31, 2009, the available for sale equity portfolio was written down by \$2,578 (2008 - \$4,125). The remainder of the unrealized losses in the portfolio of \$258 (2008 - \$6,447) was recorded in the accumulated net unrealized gains in the equity portfolio on the Balance Sheet as management determined these unrealized losses are temporary in nature or not significant. Management evaluates the impairment condition of all holdings on a quarterly basis to assess for any potential impairment write downs required.

FINANCIAL STATEMENTS

(d) Securities with interest rate exposure:

As at December 31, the scheduled maturities and fair values of the fixed income portfolio are as follows:

	Terms to Maturity ¹						
	Due within one year	Due one through five years	Due five through ten years	Due ten through twenty years	Due after twenty years	Total	
2009							
Government							
Federal	\$ 3,674	\$ 49,209	\$ 2,553	\$ 7,017	\$ 12,687	75,140	
Yield to Maturity ("YTM")	0.4%	2.0%	3.2%	4.2%	4.1%	2.5%	
Provincial	—	7,408	10,789	9,177	4,993	32,367	
YTM	0.0%	2.4%	3.5%	4.6%	4.8%	3.8%	
Municipal	—	—	540	—	—	540	
YTM	0.0%	0.0%	4.5%	0.0%	0.0%	4.5%	
Total Government	3,674	56,617	13,882	16,194	17,680	108,047	
YTM	0.4%	2.1%	3.5%	4.4%	4.3%	2.9%	
Financial Institutions	—	6,801	18,266	—	4,767	29,834	
YTM	0.0%	2.1%	3.7%	0.0%	4.5%	3.4%	
Other Corporate	—	16,437	37,503	6,164	10,626	70,730	
YTM	0.0%	2.3%	3.8%	5.0%	5.7%	3.9%	
T-Bills / Debit Notes	12,296	—	—	—	—	12,296	
YTM	1.4%	0.0%	0.0%	0.0%	0.0%	1.4%	
Total Fixed Income	15,970	79,855	69,651	22,358	33,073	222,907	
Accrued Interest	1,523	—	—	—	—	1,523	
Total Fixed Income with Accrued Interest	\$ 17,493	\$ 79,855	\$ 69,651	\$ 22,358	\$ 33,073	\$ 222,430	
YTM	1.2%	2.1%	3.7%	4.6%	4.8%	3.2%	
2008							
Government							
Federal	\$ 3,639	\$ 26,272	\$ 8,056	\$ 1,484	\$ 24,065	\$ 63,516	
Yield to Maturity ("YTM")	0.7%	1.5%	2.8%	3.3%	3.5%	2.4%	
Provincial	—	2,992	1,444	8,268	13,398	26,102	
YTM	0.0%	2.6%	4.1%	4.5%	4.7%	4.4%	
Municipal	—	1,084	822	—	—	1,906	
YTM	0.0%	2.4%	4.2%	0.0%	0.0%	3.2%	
Total Government	3,639	30,348	10,322	9,752	37,463	91,524	
YTM	0.7%	1.6%	3.1%	4.3%	4.0%	3.0%	
Financial Institutions	967	11,227	19,121	—	3,923	35,238	
YTM	2.2%	4.1%	5.5%	0.0%	7.7%	5.2%	
Other Corporate	2,448	32,568	30,679	4,465	5,079	75,239	
YTM	3.7%	4.5%	5.7%	6.3%	7.5%	5.3%	
T-Bills / Debit Notes	11,796	—	—	—	—	11,796	
YTM	1.6%	0.0%	0.0%	0.0%	0.0%	1.6%	
Total Fixed Income	18,850	74,143	60,122	14,217	46,465	213,797	
Accrued Interest	1,820	—	—	—	—	1,820	
Total Fixed Income with Accrued Interest	\$ 20,670	\$ 74,143	\$ 60,122	\$ 14,217	\$ 46,465	\$ 215,617	
YTM	1.7%	3.3%	5.2%	5.0%	4.7%	4.1%	

¹ The timing of actual maturities may differ from the contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.

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NOTE 6 FINANCIAL INSTRUMENTS

(a) Fair value

Fair value represents the amount that would be exchanged in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Corporation's cash and investments are measured at fair value. The carrying value for funds held as security and, accounts payable and accrued liabilities approximates fair value due to their short term nature.

The fair value of the amounts recoverable from builders is not disclosed as the fair value cannot be measured reliably; there is no external active market for this type of asset and the inputs required to value these are not easily determinable.

Fair value hierarchy

The fair value for both held for trading and available for sale assets are based on quoted bid prices in active markets and include accrued interest and dividends, respectively. The fair value of bonds and equities denominated in foreign currencies is translated into Canadian dollars at the exchange rate in effect at December 31. The following table presents the financial instruments measured at fair value classified by the fair value hierarchy set out in Section 3862 as described in Note 3:

	2009	2008
Level 1 Categorization		
Cash (Bank Overdraft)	\$ 2,851	\$ (439)
Equity Portfolio	90,011	77,920
Level 2 Categorization		
Treasury Bills / Debit Notes	12,297	11,814
Bonds	210,133	203,803
Level 3 Categorization		
Total	\$ 315,292	\$ 293,098

During the year ended December 31, 2009, there were no transfers among levels 1, 2 and 3.

(b) Market risk

To manage the risks in the investment portfolio, management regularly monitors the performance of investment managers who are required to operate within specific investment criteria related to credit quality, diversification and to maximize yield within those constraints.

Market risk is comprised of three risks that may impact the fair value of a financial instrument as described below.

• Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk on its fixed income portfolio and its funds held as security. Details of the Corporation's fixed income portfolio with interest rate exposure are disclosed in Note 5(d).

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- **Equity price risk**

Equity price risk is the risk that the value of a financial instrument will fluctuate due to changes in equity markets. The Corporation is exposed to equity price risk on its equity portfolio. The Corporation's equity portfolio is diversified and invested in well established, active, liquid markets.

	2009	2008
Financials	\$ 24,472	27%
Energy	19,834	16,812
Pooled Funds	14,215	11,790
Consumer Staples	6,888	7,594
Consumer Discretionary	6,167	5,192
Industrials	6,068	4,958
Telecommunication	4,586	4,115
Metals & Mining	2,441	3,057
Materials	2,315	2,140
Information Technology	1,475	748
Health Care	980	1,010
Utilities	570	755
Total	\$ 90,011	100%
	\$ 77,920	100%

- **Foreign currency risk**

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates versus the Canadian dollar. The Corporation is exposed to currency risk on its foreign currency denominated fixed-income and equity investments. As at December 31, 2009, the Corporation had approximately 11.0 per cent (2008 – 11.1 per cent) of the fair value of its equity investments and approximately 0.01 per cent (2008 – 0.02 per cent) of the fair value of its securities with interest rate exposure denominated in U.S. dollars. The Corporation manages its foreign currency exposure by limiting the foreign content in each investment manager's portfolio.

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The table below shows the potential impact on the Statement of Operations and Balance Sheet equity as a result of specific stress scenarios applied to financial assets and financial liabilities (excluding warranty liabilities). The analysis reflects management's view of key sensitivities. The actual results may differ from this sensitivity analysis and the difference could be material.

The stress scenarios are:

- Interest rate risk: a parallel shift of -25/+50 basis points in interest rates for all maturities
- Equity price risk: an increase/decrease of 10 per cent in equity market prices
- Foreign currency risk: a strengthening/weakening of 5 per cent in Canadian dollars relative to U.S. dollars

	Carrying Amount (\$'000)	Interest Rate Risk		Equity Price Risk		Foreign Exchange Rate Risk	
		-25 BP	+50 BP	-10%	10%	-5%	5%
Financial Assets		Stmt of Operations (\$'000)	Stmt of Operations (\$'000)	Equity (\$'000)	Equity (\$'000)	Equity (\$'000)	Equity (\$'000)
Held for Trading investments	222,430	3,905	(5,637)	-	-	-	-
Available for Sale investments	90,011	-	-	(8,969)	8,969	520	(470)
Financial Liabilities							
Funds Held in Security	36,959	92	(185)	-	-	-	-

For the above scenarios, we have assumed that interest rates, equity prices, and currency moved independently.

(c) Credit risk

Credit risk arises from the possibility of financial loss occurring as a result of a default by a counterparty on its obligation to the Corporation. Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of cash, investments and amounts recoverable from builders. The carrying value of financial assets, including cash, investments and amounts recoverable from builders, represents the maximum credit exposure. The Corporation has adopted the following strategies to mitigate this risk:

- The Corporation's investment policies limits the concentration in any one investee or related group of investees, except for financial instruments issued by the Government of Canada for which there is no limit.

The Corporation only deals with counterparties believed to be creditworthy and actively monitors credit exposure, requiring minimum credit ratings of "A" for debt securities at the time an investment is purchased. At December 31, 2009, 99.4 per cent (2008 – 100 per cent) of the debt securities have a rating of "A" or better, and 0.6 per cent (2008 – Nil) of the debt securities have a rating of BBB.

- Cash and short-term investments are placed with governments, well-capitalized financial institutions and other creditworthy counterparties.
- The Corporation assesses the builder's risk profile including financial health during the registration and renewal processes. Based on the assessment, a builder may be licensed and as disclosed in Note 9, security is obtained in the form of cash, letters of credit, and other guarantees from the builder in order to reduce the risk of financial loss related to future warranty claims from homeowners.

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(d) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to daily cash requirements from settlement of claims, operating expenses and cash security releases. The settlement of claims have no fixed terms and is dependent on the timing of the repair work involved and the cash security release has no fixed terms and is contingent upon fulfilment of certain requirements (see Note 10). Liquidity risk is considered low as a significant percentage of the investment portfolio is traded in an active market and can be readily disposed of. The Corporation also has a \$3,000 (2008 - \$3,000) line of credit it can draw on of which the amount outstanding is Nil (2008 - \$651).

NOTE 7 EQUIPMENT AND LEASEHOLES

	2009			2008		
	Cost	Accumulated Depreciation/ Amortization	Net Book Value		Net Book Value	
Computer and office equipment under capital lease	\$ 2,188	\$ 1,198	\$ 990	\$ 1,239		
Leasehold improvements	3,046	1,350	1,696	1,795		
Computer equipment	1,395	1,258	137	149		
Furniture and office equipment	1,544	954	590	724		
	\$ 8,173	\$ 4,760	\$ 3,413	\$ 3,907		

The total depreciation and amortization expense for the year ended December 31, 2009 was \$1,180 (2008 - \$1,400).

The balance of the capital lease obligations arising from the acquisition of certain computer and office equipment was \$991 at December 31, 2009 (2008 - \$1,256). This obligation is reported on the Balance Sheet in accounts payable and accrued liabilities. Interest expense of \$165 was incurred during 2009 (2008 - \$203) on the capital leases which is reported in general and administrative expenses in the Statement of Operations.

NOTE 8 INTANGIBLE ASSETS

The Corporation's intangible assets are comprised of externally purchased software and applications and internally developed software enhancements.

	2009			2008		
	Cost	Accumulated Depreciation/ Amortization	Net Book Value		Net Book Value	
Finite-life Intangible Assets:						
Software and applications	\$ 5,569	\$ 4,880	\$ 689	\$ 713		
Internal software enhancements	4,614	3,790	824	1,351		
	\$ 10,183	\$ 8,670	\$ 1,513	\$ 2,064		

The amortization of intangible assets recorded in operating expenses during the year ended December 31, 2009 was \$1,135 (2008 - \$1,116). There were no write-downs of intangible assets due to impairment during 2009 and 2008.

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NOTE 9 WARRANTY LIABILITIES

The determination of the Corporation's warranty liabilities, which include deferred home enrolment fees and warranty claim liabilities, is dependent on the Corporation's claims handling practices, on actuarial assessments, on the judgment of its management, on historical precedents and trends, on prevailing legal, economic, social and regulatory environments and on expectations of future developments. Periodic reviews are performed by management and reviewed by the Corporation's appointed actuary to assess whether warranty claims liabilities recorded for homes and condominiums, and deferred home enrolment fees are adequate relative to future claims and related administration costs to administer claims.

In general, the longer the period of time between the incidence of loss and the settlement of the related claim, the greater the potential for actual settlement amounts to differ from the recorded estimates. Actual settlements may also differ significantly from the estimates of these liabilities due to the measurement uncertainty involved in establishing assumptions for such variables as future rates of claim frequency, severity, inflation, the ability of builders to fulfill their obligations to home buyers, recoveries from builders and administrative costs.

The following table summarizes the components of the warranty liabilities as at December 31.

	2009	2008
Deferred home enrolment fees, beginning of year	\$ 95,253	\$ 91,466
Fees received	33,885	33,905
Fees earned	(29,183)	(30,118)
Deferred home enrolment fees, end of year	99,955	95,253
Warranty claims liabilities, beginning of the year	73,675	51,202
Provisions for claims, net of reversals	11,616	36,496
Claims paid	(20,995)	(14,023)
Warranty claims liabilities, end of year	64,296	73,675
Warranty liabilities, end of year	\$ 164,251	\$ 168,928

The following table summarizes the components of net claims incurred presented in the Statement of Operations:

	2009	2008
Provisions for claims, net of reversals	\$ 11,616	\$ 36,496
Less recoveries	(8,521)	(10,232)
Net claims incurred for the year	\$ 3,095	\$ 26,264

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NOTE 10 FUNDS HELD AS SECURITY

The Corporation receives security in the form of cash, letters of credit and other guarantees, from builders in order to reduce the risk of financial loss related to future warranty claims from homeowners. The funds held as security do not have any fixed contractual maturities and are to be returned to the builders or released only upon satisfactory completion of certain requirements, such as there being no or minimal deposit or financial loss risk and the completion of outstanding warranty obligations under the Ontario New Home Warranties Plan Act, the timing of completion of which cannot be reasonably estimated.

Security received in cash is invested as part of the Corporation's investment portfolio. The Funds held as security presented on the Balance Sheet as a liability are the potentially refundable security deposits received in cash, including cumulative accrued interest thereon of \$1,917 (2008 - \$2,499). Letters of credit and other guarantees are recognized in the financial statements only to the extent they are expected to be drawn upon to settle known claims. Such amounts are included in amounts recoverable from builders in the Balance Sheet (Note 4).

During the year, the Corporation incurred interest of \$355 (2008 - \$1,195) on cash security deposits.

NOTE 11 EMPLOYEE FUTURE BENEFIT PLANS

The Corporation's Pension Plan is comprised of a defined benefit pension plan which is closed to further contributions, and a money purchase pension plan. The money purchase pension plan ("MPP") is open to all full-time employees of the Corporation, subject to meeting certain eligibility conditions. Under the terms of the MPP, employees contribute a percentage of eligible employee earnings per year. The Corporation makes contributions for each contributing employee in amounts that vary dependent upon the employee's age and the number of years of eligible service.

In addition, the Corporation provides other post-employment benefits ("OPEB"), primarily various health and dental coverages, on an unfunded basis.

The Corporation has a December 31 measurement date. A valuation of the accrued pension benefit obligation was performed as at January 1, 2008, and a valuation of the OPEB was performed as of December 31, 2008. The next valuation of the accrued pension benefit obligation is expected to be performed as at January 1, 2011 and the valuation of the OPEB will be performed as at December 31, 2011.

As at December 31, 2009, the fair value of the pension fund assets is \$14,557 (2008 - \$11,720), which is less than (2008 – greater than) the actuarial present value of accrued pension benefits for the Pension Plan estimated to be \$14,686 (2008 - \$11,661). The accrued pension liability is \$319 (2008 - \$368).

The accrued benefit liability for OPEB at December 31, 2009 is \$2,053 (2008 - \$1,619).

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Other information about the Corporation's Pension Plan and OPEB is as follows:

	2009		2008	
	Pension Plan	OPEB	Pension Plan	OPEB
Reconciliation and funded status				
Fair value of plan assets	\$ 14,557	\$ -	\$ 11,720	\$ -
Accrued benefit obligation	14,686	2,954	11,661	2,165
Funded status of plan – surplus (deficit)	(129)	(2,954)	59	(2,165)
Unamortized transitional (asset)/obligation	(588)	86	(705)	103
Unamortized net actuarial (gains) losses	224	(194)	86	(678)
Unamortized past service cost	174	1,009	192	1,121
Accrued liability, net of valuation allowance	\$ (319)	\$ (2,053)	\$ (368)	\$ (1,619)
Transfers to other plans and benefits paid	\$ 411	\$ 13	\$ 925	\$ 17
Employee contributions	600	-	592	-
Employer contributions	938	13	953	17
Expense for the year	896	449	766	529

The total cash paid or payable in 2009 was \$951 (2008 – \$970).

Significant Assumptions	2009		2008	
	Pension Plan	OPEB	Pension Plan	OPEB
Accrued benefit obligation as of December 31				
Discount rate	6.50%	6.50%	7.25%	7.50%
Salary increase	4.00%	N/A	4.00%	N/A
General inflation	2.50%	2.50%	2.50%	2.50%
Benefit cost for the period:				
Discount rate	7.25%	7.50%	5.50%	5.50%
Salary increase	4.00%	N/A	4.00%	N/A
General inflation	2.50%	2.50%	3.00%	3.00%
Assumed health care cost trend rates at December 31				
Initial health care cost trend rate		8.00%		8.50%
Cost trend rate declines to		5.00%		5.00%
Year that the rate reaches the rate it is assumed to remain at		2016		2016

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Sensitivity Analysis for OPEB

Assumed health and dental care cost trend rates have a significant effect on the amounts reported for the health and dental care plans. A one per cent change in assumed health and dental care cost trend rates would have the following impact on the Employee future benefits liabilities and the related costs for 2009:

2009	Valuation Assumptions	1% change	
		Increase	Decrease
Total of service and interest cost at 7.5 per cent per annum:	\$ 348	\$ 92	\$ (67)
Accrued benefit obligation as at December 31, 2009 at 6.5 per cent per annum	\$ 2,954	\$ 688	\$ (525)
2008	Valuation Assumptions	1% change	
		Increase	Decrease
Total of service and interest cost at 5.5 per cent per annum:	\$ 400	\$ 121	\$ (89)
Accrued benefit obligation as at December 31, 2008 at 7.5 per cent per annum	\$ 2,165	\$ 442	\$ (344)

NOTE 12 CAPITAL MANAGEMENT

The Corporation's capital consists of the surplus and accumulated net unrealized gains (losses). Although there is no external regulatory requirements imposed on the Corporation's capital, management has adopted a capital management framework modeled after the framework used in the P&C insurance industry and modified to reflect the Corporation's circumstances including its inability to raise capital in traditional ways. This framework incorporates the business requirements for sufficient capital throughout the variations of the new home building cycle, including possible losses from a future catastrophic event. It also reflects the relatively high risk profile of the Corporation's warranty operations, including the high level of measurement uncertainty inherent in its warranty liabilities due to the long warranty period of up to seven years and to other factors explained in Note 9.

In applying the framework, the total equity of the Corporation as at December 31, 2009 and 2008 has been determined to be sufficient to cover possible losses from a future catastrophic event as determined by the dynamic capital adequacy testing performed by the Corporation's external actuary in 2008. The next dynamic capital adequacy test will be performed in 2010.

NOTE 13 CONTINGENCIES, COMMITMENTS AND GUARANTEES

In the normal course of business, the Corporation is a party to a number of lawsuits as the administrator of the Ontario New Home Warranties Plan Act. To the extent that lawsuits relate to disputes of warranty coverage, provisions for loss are included in the warranty liabilities on the Balance Sheet. Other lawsuits are at various stages of legal proceedings, the outcome of which are currently not determinable and are not expected to have a significant impact on the Corporation's financial position.

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As at December 31, 2009, the Corporation has future minimum annual lease payments under operating leases for each of the next five years and thereafter as follows:

	Premises Leases	Computer and Office Equipment Leases	Total Leases
2010	\$ 755	\$ 622	\$ 1,377
2011	742	395	1,137
2012	738	213	951
2013	739	100	839
2014	748	-	748
2015 and thereafter	1,319	-	1,319
	\$ 5,041	\$ 1,330	\$ 6,371

In the normal course of operations, the Corporation executes agreements that provide for indemnification to third parties in transactions such as service agreements, leases and purchases of goods. Under these agreements, the Corporation agrees to indemnify the counterparty against loss or liability arising from the acts or omissions of the Corporation in relation to the agreement. In addition, the Corporation has also agreed to indemnify its directors and certain of its officers and employees in accordance with the Corporation's by-laws.

These indemnification provisions will vary based on the nature and terms of the agreements. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation could be required to pay as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made significant payments under such indemnification agreements. No amounts have been accrued related to these agreements.

NOTE 14 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Corporation provides a broad range of services to homeowners and builders based on its mandate to administer the Act. Accordingly, the Corporation may enter into transactions with builders related with the Corporation's Board of Directors through a relationship of principal, director, officer and/or guarantor.

As at December 31, 2009 and 2008, there are no collection and litigation account receivables and cash securities recognized due from related parties. Letters of credit and other guarantees lodged by related parties are recognized in the financial statements only to the extent they are expected to be drawn upon to settle known claims.

NOTE 15 SUBSEQUENT EVENT

The Pension Plan assets are invested solely in a unitized fund. During the year a project was undertaken to change the money purchase pension plan so that employees will be able to choose their investments from a predetermined basket of funds. The project is ongoing and the implementation is planned for the fall of 2010.

NOTE 16 COMPARATIVE AMOUNTS

As described in Note 3 under changes in accounting policies, the intangible assets comparative amounts have been reclassified to conform to the presentation adopted in 2009.

CORPORATE INFORMATION

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Customer Centre

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Questions or comments regarding Tarion
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in the Annual Report may be directed to:

Tarion Warranty Corporation

Corporate Affairs Department
Telephone: 1-877-982-7466

The Corporation's Annual Report can also be found
on the Tarion website at www.tarion.com